1976 Annual Report

NABISCO, IN

"It took us 73 years to reach $1 billion in sales, it has taken us from 1971 to 1976 to reach $2 billion."

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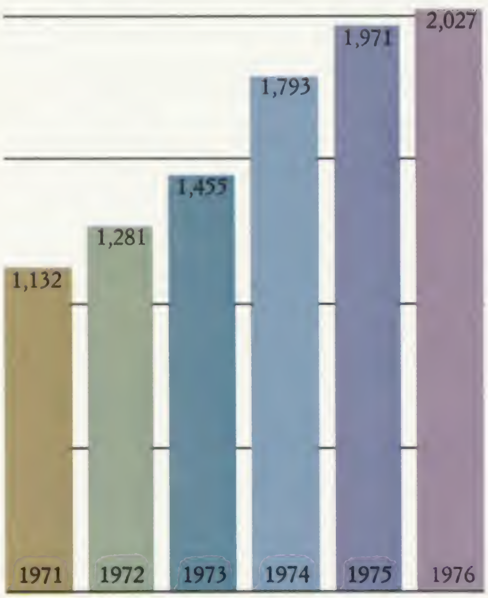
Notice of Annual Meeting

The annual meeting of shareholders will be held at 2 p.m. on Monday, April 25, 1977, at the Conference Center of the OMNI International Hotel, Atlanta, Georgia.

Financial Highlights

Net Sales *(Millions of dollars)*



(Dollars in millions except per share data)

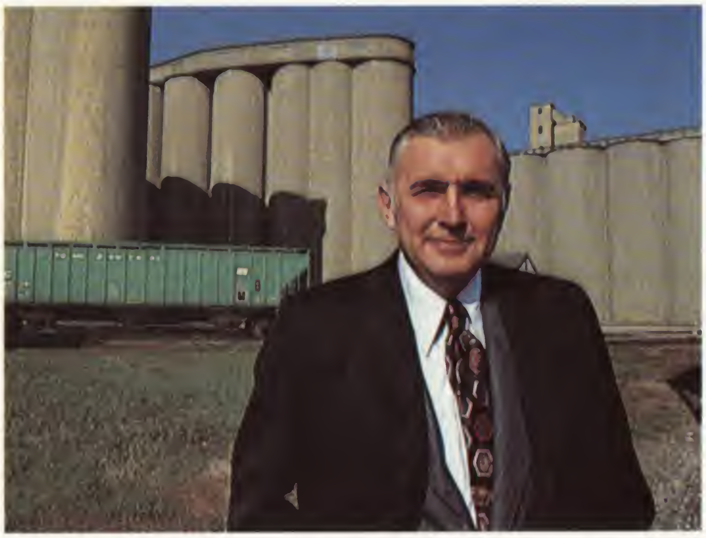
	1976	1975	% Change
Net Sales	**$2,027.3**	$1,970.8	2.9
Net Income	**77.0**	59.0	30.5
Net Income Per Share	**4.82**	3.70	30.3
Dividends Declared Per Share	**2.40**	2.30	4.3
Net Income Per Dollar of Sales	**3.8 cents**	3.0 cents	
Shareholders' Equity Per Share	**27.96**	25.52	9.6
Working Capital	**235.8**	191.7	23.0
Current Ratio	**1.82:1**	1.65:1	
Capital Expenditures	**54.1**	56.0	(3.4)
Total Assets	**1,058.5**	1,014.4	4.4
Return on Shareholders' Equity	**18.0%**	14.9%	

"It took us 73 years to reach $1 billion in sales, it has taken us from 1971 to 1976 to reach $2 billion. We would like to find more fast-moving consumer items that can be built up by using franchise names. Nabisco's outstanding strength is marketing and we want to use that strength where it counts most." *Robert M. Schaeberle, Chairman and Chief Executive Officer*

In 1976, sales of Nabisco, Inc. exceeded $2 billion for the first time. The Company ranks among the nation's 150 largest industrial companies, and markets consumer products in more than 100 countries. Total sales have almost doubled during the past five years. Of the $2 billion in sales, approximately 30% is international. Nabisco employs approximately 48,000 people at some 90 major plants and facilities around the world. About 21,000 are employed outside the United States.

Nabisco is best known as a manufacturer of quality cookies, crackers, and snack products, accounting for about 60% of the Company's annual sales volume. Well-known brand names include *Premium* Crackers, *Ritz* Crackers, *Oreo* Cookies, *Dromedary* dates and pimientos, *Nabisco* Shredded Wheat and *Cream of Wheat* Cereals. Confectionery products such as *Chuckles* candies, and pet foods under the *Milk-Bone* label are also produced by Nabisco. In the non-food product line, popular brands include the J.B. Williams toiletry and pharmaceutical products, such as *Geritol, Sominex, Aqua Velva,* and *Rose Milk;* Aurora toys and games, such as *AFX* and *Xlerator Model Motoring* lines; and Associated Products home furnishings items, such as *Hygiene* shower curtains and *Everlon* knitted curtains and draperies.

To Nabisco Shareholders



Robert M. Schaeberle visits the new Toledo, Ohio, flour mill.

Val B. Diehl attends the Biscuit Division's annual conference.

We are very pleased to report that Nabisco made substantial progress in 1976. The upward momentum experienced during 1975 continued at a strong pace throughout 1976. As a result, both sales and earnings set new highs for the second consecutive year.

Sales of $2.03 billion were 3% above the previous year's record mark of $1.97 billion. Earnings rose more sharply to the record level of $77 million, or $4.82 per share, an increase of 31% over the $59 million, or $3.70 per share, earned in 1975.

Dividend Increase Voted

In response to the outstanding earnings performance, and with continuing confidence in 1977, the Board of Directors voted at its January 1977 meeting to increase the quarterly dividend from 60 cents to 63 cents. This action reflects the high earnings base that Nabisco has established and, in a very real way, shares the Company's success with its shareholders.

The continuing improvement in Nabisco's performance is the result of its effective marketing programs, improved use of Company assets, a strong management team, lower raw material costs, and a more favorable economic climate.

U.S. Food Operations Set Record

The outstanding performance of the U.S. food operations during 1976 was a key to the record performance of Nabisco as a whole. The Biscuit Division now has annual sales of close to $1 billion. The cookie, cracker, and snack food markets showed an improved rate of growth and Nabisco benefited from the successful introduction of a number of new products, particularly in the snack cracker line, where *Swiss Cheese* and *Country Cheddar 'n Sesame* Snack Crackers led the way. In the cookie line, *Oreo with Double Stuf* Sandwich Cookie was a major success. The Special Products Division turned in another good year, registering good growth in its diverse markets, particularly ready-to-eat cereals and *Milk-Bone* Brand Dog Biscuits.

The International Division showed improved earnings for the year due to reduced losses in the German operation, coupled with better results in Australia and Japan. Strong earnings performances were also reported in France, Italy, and Latin America.

Rose Milk Now Nationwide

New product introductions also characterized consumer non-food operations at Nabisco. The J.B. Williams Company, Inc. turned in a record performance, with excellent results in the *Rose Milk* product line, now extended with the nationwide introduction of a moisturizing face cream.

The Aurora Products toy and game subsidiary's results were disappointing despite the positive results of the *Model Motoring* line. Plans are aimed at achieving acceptable performance levels.

Product Excellence & Diversification Key to Future Growth
Nabisco looks forward to the future confidently and intends to enhance its position as a world leader in the quality name-branded cookie, cracker, and snack market, while selectively diversifying the business base into other consumer product markets on a domestic and international basis. In line with rising consumer expectations as to value and safety in food products, we continue to intensify our quality assurance programs. Maintaining our reputation for product excellence is an important aspect of our long-term strategy.

Decentralized Management Structure
In the past few years, Nabisco has adopted a more decentralized management structure, placing greater responsibility with the operating divisions. At the same time, key staff functions have been strengthened to afford overall financial and corporate control, while providing counsel and assistance to the operating divisions. The new organization has demonstrated that it can deal effectively with changing business conditions.

Confidence Based on Positive Strengths
Our confidence in a prosperous future for Nabisco is based on a number of positive strengths. These include:

- Resurgence of growth in widely known products.
- Strong new product introductions.
- Manufacturing capacity for substantial growth.
- Improved market research methods.
- Increased marketing investment.
- Profit-oriented management team with incentives for exceptional performance.

Improved Financial Position
Nabisco continued to strengthen its financial position during 1976, with a further reduction of $15 million in short-term debt to $48 million at year-end. Interest expense in 1976 also declined to $23 million, down from $29 million in the prior year. Working capital has improved from $192 million to $236 million, and retained earnings were increased to $366 million from $327 million during 1976. Cash flow from operations totaled $122 million during the year. Nabisco's improved liquidity is very important to us as we face new opportunities for growth and expansion.

Progress in Energy Management
Management continues to search for ways to deal with the energy situation. In May of 1976, we successfully concluded arrangements for direct wellhead purchase of natural gas, most of which was formerly burned in the atmosphere as uneconomic waste. This gas is now being used in a number of our bakeries and enabled us to maintain production at satisfactory levels during the recent natural gas crisis.

Nabisco has intensified its conservation efforts to comply with the new federal government goals for the food products industry. Through more efficient production techniques, the Biscuit Division achieved its voluntary conservation goal of a 10% improvement in energy usage by the latter part of 1976.

More Nutritious Foods a Nabisco Goal
With our research and innovative product development, we intend to play an increasingly important role in the improvement of world nutrition. Through research, we are seeking opportunities to improve existing products as well as to develop new highly nutritious foods. We also will continue to evaluate protein sources to assist in serving the expanding food needs of developing nations.

Universal Product Code Aids Food Distribution
We would like to comment briefly on Universal Product Coding, a labeling innovation that appears on virtually all items handled by food stores across the country. This package coding procedure, developed to provide improved check-out information for consumers, also offers significant opportunities for productivity gains in the entire food distribution system in the United States. Nabisco has been a contributor to the development of this system. Though this coding procedure is currently available only in a limited number of stores, we are convinced that it will provide better consumer information, greater accuracy, and faster procedures for store check-out. This will be of value to the consumer as well as to the store by providing vastly improved inventory information for retail outlets in the next few years.

Charles W. Lubin retired from our Board of Directors during 1976, and we wish to express appreciation for his many years of valuable contribution to the corporation. At the same time, we would like to thank our many employees for their dedicated service throughout the year.

Corporate Outlook
We believe we can achieve the major goals and objectives necessary for Nabisco's continued growth. The basic strengths that have enabled us to increase our sales from $1 billion to $2 billion in five years are still in place. We fully expect our management team to again set records in 1977.

Robert M. Schaeberle,
Chairman

Val B. Diehl,
President

January 31, 1977

Conversations with Management

"If you think Nabisco has had ▷ solid growth in the past five years, just watch the next five!"

Matthew B. Rosenhaus, Vice Chairman of the Board

Robert L. Sanford, Senior Vice President

"Our objective is to improve productivity by the application of technology and the effective use of manpower and capital." ◁

James O. Welch, Jr., Vice President; President, Special Products Division

C. Richard Owens, Vice President, Finance

"With our management controls in place, we have our eyes firmly fixed on bottom line profits and return on investment." ◁

Robert J. Powelson, Vice President; President, Biscuit Division

"Our strategy is to build our basic quality brands through increased marketing emphasis." △

"I sense a renewed spirit at ▷ Nabisco. New products, a faster pace, more innovation."

Morris L. Levinson, President, Associated Products, Inc.

William J. Tobin, President, Food Services Division

"By introducing new products and intensifying our marketing efforts, we have expanded the potential of the entire cookie and cracker market." △

"We are moving to position Nabisco as a prominent supplier of crackers, cookies and snacks within all segments of the food service industry." ◁

"Our staff of professionals has become more aggressive in employing a variety of buying techniques to assure continuity of supply at favorable prices." ▷

Carl R. Pilz, Vice President, Purchasing

David F. Bull, Group Vice President

"More normal conditions have returned to the market-place, so that we can plan with greater confidence." ◁

"The message to investors is that Nabisco is in a period of change and growth." ▽

Carol S. Tutundgy, Director Investor Relations

Thomas J. McDonnell, Area Vice President; International Division

Edward P. Redding, Group Vice President

Aldo Osti, Area Vice President; International Division

Warren J. Robertson, Senior Vice President

Richard S. Creedon, Group Vice President

"Nabisco has made a major commitment of people and capital around the world. These investments will support our future plans." △

"The underlying strength of Nabisco—and that characteristic which may set it apart from others—is its continued commitment to product excellence." ◁

Theodore G. Richter, Group Vice President

"The strong financial position of Nabisco provides the essential base for long-term corporate growth and development." △

"Our important share of the Canadian market for biscuits, cereals and pet foods, contributes greatly to Nabisco's success in the North American continent." ◁

Review of 1976 Operations

Nabisco's **Biscuit Division**—the largest operating group and the Company's original business—turned in a record sales and earnings performance in 1976.

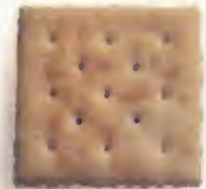
The Biscuit Division produces and markets cookies, crackers, and related snack foods to the retail food trade in the United States. One of its great strengths is a unique selling and distribution system that ensures that Nabisco products reach the consumer as quickly and as fresh as possible. The largest sales force in the food industry—more than 3,000—assures maximum distribution for the division's many products. This extensive sales network means 95% market penetration of the 200,000 retail food stores in the United States on all new items nationally introduced in about ten days' time. In addition to its obvious success with new product introductions, the system has aided the revitalization of Nabisco's traditional products as well. It supplies Nabisco with vital information about consumers and the market it serves, as well as a quick, reliable analysis of the effectiveness of merchandising programs. Finally, computerization allows production scheduling to optimize the use of manufacturing facilities and marketing programs.

Most important in the renewed growth of our traditional product lines was the new system of market testing that began in early 1974. The information obtained gave direct insight into the impact of different kinds of advertising on established product lines such as *Ritz* Crackers, *Premium* Saltines, and *Oreo* Cookies. The system employed, termed "Probe", tested increased advertising campaigns in relatively small but well-controlled areas. Experience has proven that it provides an accurate evaluation by using only about 2% to 3% of the country as a test area for a new product or concept as compared with the broader and more expensive 10% testing used previously. Nabisco's goal was to learn where advertising dollars bring the most effective results. It was discovered that by using an intensified advertising program, demand could be markedly stimulated for an already large selling brand such as *Ritz* Crackers. Even more significant is that the cumulative effect of all this testing was to stimulate the total cookie and cracker market beyond its traditional growth pattern.

Another factor in this division's performance is the new product program, which has received increased management attention. The three newest product introductions of the Biscuit Division—*Swiss Cheese* Snack Crackers, *Country Cheddar 'n Sesame* Snack Crackers, and *Oreo with Double Stuf* Cookies—rank among the largest selling new varieties that Nabisco has ever introduced.

Aggressive marketing efforts have pushed sales of Nabisco's traditional products to new highs.

Fig Newtons



Premium Saltines

Triscuit

Nutter Butter

Capitalizing on the strength of the Oreo *brand . . . the world's largest selling cookie . . . Nabisco's* Oreo with Double Stuf *has captured the taste of millions of additional consumers.*


OREO

Advertising Expenditures Increasing

Total media expenditures in 1976 for all Nabisco products increased to $75 million in the United States, while worldwide media spending reached $90 million. Such expenditures are expected to be up 8% to 10% for 1977. This compares with U.S. expenditures of $63 million in 1975 and worldwide spending of $84 million for the Company's diversified consumer product line. Management is convinced that this increased support has been highly effective in improving the awareness of the Company's products and their future growth potential.

Nabisco's **Food Services Division** supplies institutional food distributors who service over 500,000 restaurants and institutional accounts. Its market penetration increased during 1976 and is expected to maintain this momentum in 1977. This division was the fastest-growing segment of the Company during 1976, and its growth reflects the changing habits of Americans who are eating more meals away from home.

Consistent with growth trends in the food service industry, Nabisco will emphasize coverage and product line development with restaurant chains, fast food operations, and airline feeding.

The **Confectionery Division,** with such well-known products as *Chuckles, Sugar Daddy, Pom Poms,* and *Junior* Mints, has been under pressure in a difficult market. Per capita sales for the industry as a whole are down, but the division has taken steps to strengthen its distribution. Operating results for the year were still comparable to 1975 levels.

The economics of more workers per household is expected to increase the housewife's preference for convenience frozen food products and strong sales growth is projected for this market. However, operating results at Nabisco's **Freezer Queen** subsidiary, which produces frozen meat entrees, were hampered in 1976 by extreme price competition within the industry.

Plants with Room to Expand

Large capital expenditures made over the last five years give Nabisco major modern manufacturing facilities literally worldwide. Improved productivity is being realized as optimum levels of plant utilization are being reached. The Biscuit Division can increase its capacity by 24% merely by adding to the 78 ovens within existing bakeries. Nabisco can significantly expand its production by making the relatively small investment to add to oven capacity rather than building a new plant. It can install whatever kind of production unit is needed, be it a snack cracker or cookie line. The basic approach is to develop systems rather than pieces of equipment, using the latest advances in technology throughout the baking and packaging process.

New products introduced since 1975 should add $100 million to 1977 sales.

The unifying concept of name, shape, and flavor of Swiss Cheese *led to the strongest new snack cracker ever marketed by* Nabisco.

The Richmond bakery, the newest and the most up-to-date Nabisco production facility, produced 10% of Biscuit Division tonnage in 1976. During 1977, Richmond is expected to produce 15% of the total; this bakery has space for four additional ovens.

The new Toledo, Ohio, flour mill became operational during the 1976 year. It is the largest soft wheat mill in the world and is designed to produce 2.3 million pounds of flour daily. The six-story, 65,000-square-foot mill is equipped with modern machinery designed for maximum health and safety and employs the latest technology for improved efficiency. Toledo supplies flour to the Chicago Biscuit Division bakery as well as all others in the eastern United States. The Special Products' cereal and pet food plants are also supplied from the new Toledo mill.

A new knitting mill in Cape May, New Jersey, for Associated Products, the Company's home furnishings subsidiary, also became operational during 1976. This facility produces knitted material for curtains and draperies under the *Everlon* name for the home furnishings market.

Capital expenditures for Nabisco in 1976 amounted to $54 million, with about one-half of these funds spent in the United States. Capital expenditures in 1977 may increase to approximately $70 million. Most investments call for bakery expansions—installation of new ovens and equipment.

Nabisco's **Special Products Division** is now the Company's second largest profit center. Sales and earnings were at record levels for the third consecutive year. The division was established in 1954 for the purpose of manufacturing cereals and pet foods; it was assigned *Nabisco* Shredded Wheat Cereal, *Nabisco* 100% Bran Cereal, and *Milk-Bone* Brand Dog Biscuits. These products lent themselves to the more typical grocery warehouse distribution. This was a departure from the operating mode of the Biscuit Division, which utilized a direct sales and delivery force.

The division's branded products are diverse but very well known in the marketplace, and Nabisco is increasing its share of these markets. *Milk-Bone* Brand Dog Biscuits is the leader in the rapidly growing dog snack market. Moreover, distribution of the new *Milk-Bone* Brand Beef Flavor Dog Biscuits has been successfully launched. The *Dromedary* line of pimientos and dates ranks first in its market, and sales increased significantly in 1976.

With bricks and mortar in place, Nabisco has the room to expand capacity 24%.

Computerized weighing system measures raw materials for Premium *Saltines at new baking facility in Richmond, Virginia.*

The Richmond, Virginia, bakery—Nabisco's newest and most efficient—was built with expansion in mind. It has the capacity to allow Nabisco to add at least four new baking lines to those already installed.


FUTURE OVEN
FUTURE OVEN
FUTURE OVEN
FUTURE OVEN

Nabisco's ready-to-eat cereal business grew about 4½% in volume in 1976 on top of a 20% volume gain the prior year. In addition to the Shredded Wheat products, *Nabisco* 100% Bran and *Team* Flakes turned in good growth during the year. Market positions of hot cereals were maintained because of stronger demand for one of the Company's long-established products, *Cream of Wheat*. However, sales of *Rival* Brand Canned Dog Food, a product line added to the division in 1975, were off due to highly competitive conditions in the main-meal dog food business.

In addition, the Special Products Division has the responsibility for development, marketing, and distribution of new food products. The Company's research and development facility in Fair Lawn, New Jersey, assists the Special Products Division as well as the other operating divisions in the development of products.

The **J.B. Williams Company** broke previous records in 1976 for both sales and earnings. Williams continues to hold the number one position in the respective markets for its brands, *Geritol, Sominex,* and *'Lectric Shave*. Sales of *Vivarin* and *Fem Iron* were also satisfactory. The success of *Rose Milk* Skin Care Cream and the recent introduction of *Rose Milk* Moisturizing Face Cream, has encouraged J.B. Williams to develop and market additional products for the *Rose Milk* line.

Aurora Products remained a disappointment in 1976 despite a strong performance by the *Model Motoring* line. Sales were reduced through a consolidation of the toy line in an effort to emphasize the profitable elements of this Company. However, losses were again registered, and efforts will be stepped up to eliminate these deficits from our results.

Diverse trends were evident in the results of **Associated Products** during 1976. Hygiene Industries introduced a plastic tablecloth line distributed through drugstore chains and supermarkets in addition to its traditional retail outlets. The shower curtain business remained at high levels. Everlon Fabrics, however, experienced extremely soft conditions in its segment of the home furnishings market.

Nabisco's **International Operations** showed sales gains and improved profitability in 1976 despite currency fluctuations, price controls, inflation, and constant political change around the world. Much has been accomplished in recent periods that will contribute to the building of an increasingly successful international food business for our Company.

Cereal sales are up, because consumers today want nutrition and value.

Shreddies *continues to be a popular ready-to-eat breakfast cereal for the Canadian market.*

Nabisco *Shredded Wheat products are made from 100% white wheat with no added sugar.* Team *Flakes and 100% Bran contain nutrient levels comparable to other breakfast cereals and have a high fiber content.*

Nabisco's international food operations are located in Europe, Canada, Latin America, Japan, and Australasia. Total international sales were $587 million in 1976, of which about 50% came from European operations. This compares with a total international sales base of $581 million in 1975.

Cookies and crackers represent the major portion of international sales volume; however, breakfast cereals, pastas, candies, and cake mixes are also part of the product line, as are the J.B. Williams' products. While Nabisco is generally accepted as the world leader in cookies and crackers, the Company holds the number two market position in ready-to-eat cereals outside the North American continent. Over the years, corporate strategy has been to operate in foreign countries, both through 100%-ownership ventures and through associations with local businesses.

Biscuits Belin, S.A., our French company, is a leading biscuit producer in that country. It turned in a strong earnings performance in 1976. Belin is enjoying the benefit of a major investment made three years ago in a new bakery at Evry, outside Paris. Market share has improved, along with substantial increases in sales and profits.

Saiwa, S.p.A., the Italian company, has emerged as the industry leader in cookies and crackers in that country because of its aggressive marketing program for both new and existing products. *Premium* Crackers, extremely successful during 1976, is now the number two item in the line. The substantial capital investment made seven years ago in a new and efficient plant near Milan has given Nabisco a decided advantage in Italy, where our company is moving ahead in sales, profits, and market share.

Within the framework of Britain's depressed economy, the English operation had a difficult year, but we are encouraged by the successful launch of a new line of biscuits and the introduction of a new high-protein, ready-to-eat cereal called *Whispflakes.*

German operations have presented problems to Nabisco over the years, but losses in that country were reduced during 1976. The Sprengel candy company is showing improvement in spite of record high prices for cocoa beans, which inhibit its profitability. Although results improved in 1976, XOX-Nabisco, the snack cracker and cookie operation, continues to experience losses due to competitive pressures and its small share of market.

In Latin America, Nabisco does business in Mexico, Venezuela, Nicaragua, the Dominican Republic, and Puerto Rico. Operations have been profitable in Latin America for many years.

Nabisco will diversify by adding strong products in allied consumer areas.

Everlon Fabrics increased knitting capacity through acquisition of a new Cape May, New Jersey facility.

Rose Milk *Skin Care Cream was the leader of J.B. Williams' performance in 1976, demonstrating the ability of this subsidiary to successfully enter new facets of its marketplace.*


Rose®
Milk
SKIN CARE
CREAM
8 FL.OZ
©CC

As we reported last year, our business in Australia has become profitable. The biscuit company in Australia continues to gain share of market, and New Zealand's operation has consistently turned in a good performance and enjoys a sizable market share.

An outstanding combination of the right people and the right products at the right time, accompanied by advanced baking technology, is evident in our Japanese joint venture, Yamazaki-Nabisco. This operation has been profitable almost since its inception six years ago, and it again turned in a strong performance in 1976. Sales grew tenfold by the close of 1976 from a sales base of about $7 million. Many of the products familiar to U.S. consumers are also popular in Japan, as are some products made in other foreign countries. *Ritz* Crackers are a very popular product in Japan, where they are consumed as a breakfast snack. A more recent success story is *Chip Star* fabricated potato chips. This product was particularly designed for the rapidly growing Japanese potato chip market, which is in the process of early development.

The impact of wage and price controls in Canada has resulted in unsettled economic conditions in that country. During 1976, sales achieved record levels, but profits were restrained due to government-imposed controls, an atmosphere expected to continue in 1977. Nevertheless, our Canadian operations have been excellent performers for many years, and Nabisco has an important market share in Canada, which improved further in 1976.

Management Changes

During 1976, the following changes took place in Nabisco's corporate management:

James O. Welch, Jr., a corporate vice president, was appointed President—Special Products Division.

Henry L. Henderson, a corporate vice president, was assigned responsibility for the broad area of technology within the Company.

John B. McGovern, Vice President—Personnel Relations, was assigned the additional responsibilities of consumer and community affairs and government relations.

Royden K. Kelley, a vice president who was responsible for consumer and community affairs, retired during the year, as did Frank K. Montgomery, Jr., a vice president in charge of corporate planning activities.

In world markets, Nabisco's growth will develop out of investments in people and plants.

Saiwa Cookies—Italy

Belin Cookies—France

Sprengel Candies—Germany

Chip Star Potato Chips—Japan

Ritz *Crackers, so well known in the United States, is also the Company's largest selling product in the international marketplace. It is an important product of Yamazaki-Nabisco, our joint venture in Japan.*


NABISCO
RITZ
CRACKERS ®
ナビスコ
リッツ
クラッカー
390g
NABISCO
RIT
CRACKER

Financial Review

Summary of Operations
(In millions except per share data)

	1976	1975	1974	1973	1972*
Net sales					
United States	**$1,440.4**	$1,390.3	$1,245.9	$1,008.7	$ 929.4
International	**586.9**	580.5	547.2	445.9	351.8
Total net sales	**2,027.3**	1,970.8	1,793.1	1,454.6	1,281.2
Cost of sales	**1,337.6**	1,345.7	1,278.1	989.3	822.8
Selling, general and administrative expenses	**503.2**	456.8	400.5	365.5	332.2
Income from operations	**186.5**	168.3	114.5	99.8	126.2
Miscellaneous (income) expense, net	**(3.8)**	5.0	(9.1)	(6.8)	(2.4)
Interest expense	**23.0**	28.6	30.9	17.6	12.0
Income before income taxes	**167.3**	134.7	92.7	89.0	116.6
Income taxes	**90.3**	75.7	47.2	45.0	58.1
Net income					
United States	**68.5**	55.7	38.2	32.8	48.8
International	**8.5**	3.3	7.3	11.2	9.7
Total net income	**$ 77.0**	$ 59.0	$ 45.5	$ 44.0	$ 58.5
Net income per share	**$ 4.82**	$ 3.70	$ 2.85	$ 2.75	$ 3.66
Dividends declared per share	**$ 2.40**	$ 2.30	$ 2.30	$ 2.30	$ 2.225
Average shares outstanding	**15.98**	15.96	15.96	15.98	15.98

**Amounts reflect restatement for pooling of interests.*

1976 Operations Compared with 1975 Operations

Sales—Worldwide sales of Nabisco, Inc. exceeded the $2 billion level in 1976. Sales in 1975 were $1,970.8 million. The increase was primarily a result of unit volume gains helped by successful new product introductions in the U.S. food operations. Strong sales growth from new product introductions in the toiletries operation was also a major factor in the increase.

Consolidated International sales increased 1.1% to $586.9 million in 1976 from $580.5 million in 1975. International sales would have been approximately 8% higher except for the unfavorable impact of foreign exchange rate changes. Latin American and Australasian operations, with volume gains and selective price increases, continued the strong trend established in recent years. Canadian operations also reported higher sales, notwithstanding price controls, due mainly to effective marketing efforts.

Net Sales by Geographic Area *(In millions)*

	1976	1975	1974	1973	1972
United States	**$1,440**	$1,390	$1,246	$1,009	$ 929
Europe	**297**	305	311	250	194
Canada	**147**	141	116	100	86
Australasia	**76**	72	69	56	38
Latin America	**67**	63	51	40	34
Total	**$2,027**	$1,971	$1,793	$1,455	$1,281

Cost of sales of $1,337.6 million decreased $8.1 million from 1975. The ratio to sales was 66.0% in 1976 compared to 68.3% in 1975. U.S. food operations benefited from reduced raw material costs, particularly wheat, sugar and shortening, as well as an improved product mix. The effect of these lower costs more than offset increased expenses for labor, related employee benefits and other operating costs associated with higher sales volume.

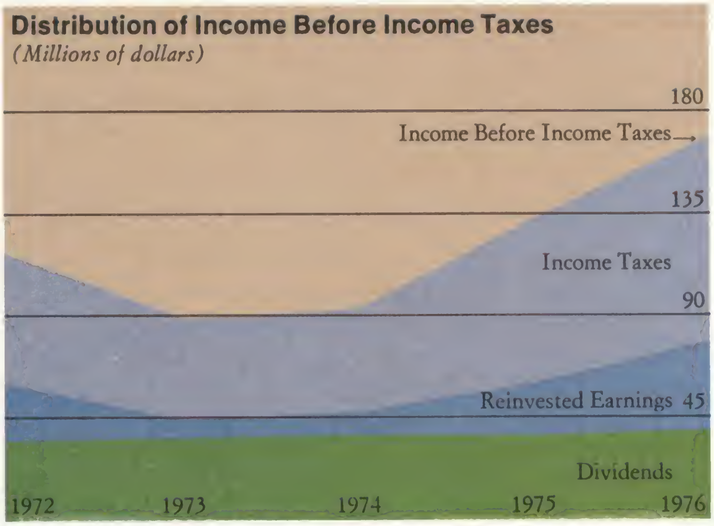
Selling, general and administrative expenses amounted to $503.2 million or 24.8% of sales compared to $456.8 million or 23.2% of sales in 1975. A major factor in the increase was higher costs of employee wages and benefits. The increase also reflects media advertising costs of $90.1 million in 1976 compared to $83.7 million in 1975.
In 1976, increased marketing support was given to established brand name products along with new products.

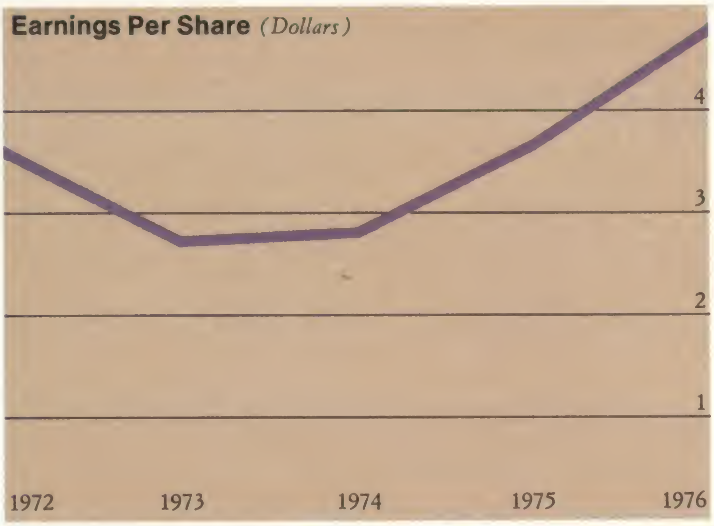
Income from operations increased 10.8% in 1976 over the previous year. The improvement was achieved principally through the performances of the U.S. food, toiletries and International operations. In the U.S. food operations, cookies, crackers and cereals results showed significant improvement over 1975 which was attributable to a combination of effective marketing programs and favorable raw material costs. The highly successful introduction of *ROSE MILK* Skin Care Cream contributed to the profit improvement in the toiletries operation. In the International area, German operations, while remaining unprofitable, showed improvement due to a combination of favorable product mix, price increases and stringent cost controls. Australasian and Latin American operations reported improved results while profits in Canada declined, due in part to price controls, where increased costs for labor and overhead could not be fully recovered.

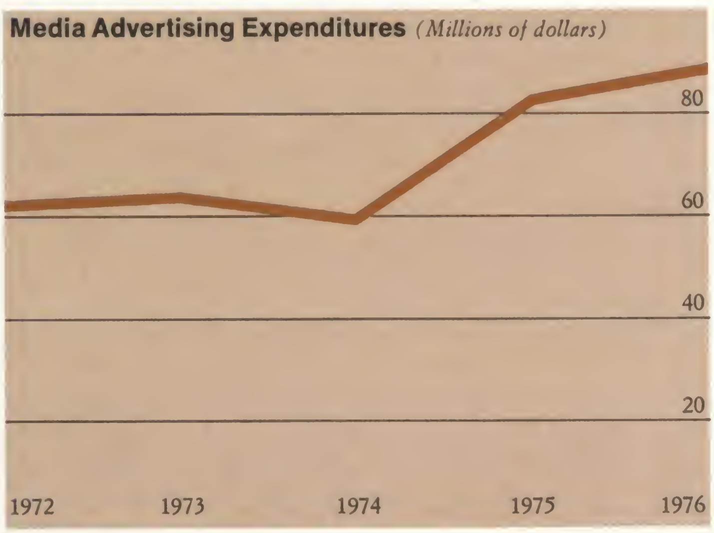
Overall, International operations reported strong results in 1976 despite the unfavorable impact of foreign currency fluctuations. In 1976, Nabisco adopted Financial Accounting Standards Board Statement No. 8 which requires, among other things, that foreign inventories be translated at historical exchange rates as opposed to current exchange rates which had been Nabisco's policy previously. In prior years the effect of translating inventories at current rates was reflected in the income statement as a foreign exchange adjustment and included under the caption "Miscellaneous (income) expense, net." In 1976, foreign inventories were translated at the appropriate historical rates and charged to cost of sales as the inventories were sold. If Nabisco's policy had not been changed, income from operations would have been $3.9 million higher with a corresponding decrease in miscellaneous income. The impact on 1975 income from operations would not have been material had Statement No. 8 been adopted in that year.

Aurora Products Corp., the toys and games subsidiary, reported an operating loss of $5.5 million in 1976 compared to a $5.7 million loss in 1975. Model motoring sales were strong but total results were adversely affected by lower than anticipated games sales.

Miscellaneous (income) expense, net amounted to income of $3.8 million in 1976 compared to an expense of $5.0 million in 1975. This improvement was due primarily to a gain of $3.2 million in 1976 from the sale of Nabisco's interest in an unconsolidated cosmetics company in South America, the improved results of the Company's joint venture in Japan and a 1975 expense of $5.8 million for costs related to the relocation of Nabisco's World Headquarters. Also, foreign exchange adjustments amounted to a loss of $2.1 million in 1976 compared with a loss of $.6 million in 1975.







Financial Review (continued)

Interest expense declined $5.6 million in 1976 to $23.0 million, principally in the short-term borrowing sector. Borrowing requirements were reduced primarily by improved cash flow from operations. The average month-end, short-term borrowing level and interest rate in 1976 were $62.0 million and 7.0% compared with $121.0 million and 8.6% in 1975.

Income taxes were $90.3 million in 1976, an increase of $14.6 million over 1975. The tax provision equaled 54.0% of pretax income compared with 56.2% in 1975. The increase in the tax provision amount was due principally to increased income before taxes and higher state and local tax rates. The decrease in the effective tax rate was due principally to a reduction of losses in German operations for which tax benefits are not presently available.

Net income for 1976 amounted to $77.0 million, an increase of 30.5% from $59.0 million in 1975. International operations contributed $8.5 million in 1976 versus $3.3 million in 1975. Net income per share amounted to $4.82 compared to $3.70 in 1975. As a percent of sales, net income equaled 3.8% in 1976 compared with 3.0% for the preceding year.

Percentage Analysis

	1976	1975	1974	1973	1972
Net sales	**100.0%**	100.0%	100.0%	100.0%	100.0%
Cost of sales	**66.0**	68.3	71.3	68.0	64.3
Selling, general and administrative expenses	**24.8**	23.2	22.3	25.1	25.9
Miscellaneous (income) expense, net	**(.2)**	.3	(.5)	(.4)	(.2)
Interest expense	**1.1**	1.4	1.7	1.2	.9
Income before income taxes	**8.3**	6.8	5.2	6.1	9.1
Net income	**3.8**	3.0	2.5	3.0	4.6
Effective tax rate	**54.0**	56.2	51.0	50.6	49.8

Distribution of 1976 Sales Dollar

1 Supplies and services 58.4¢

2 Employees 29.8¢

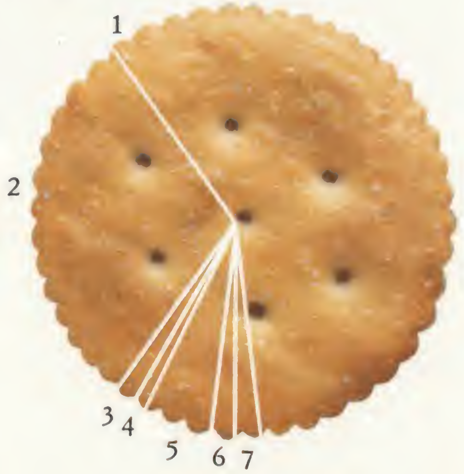
3 Depreciation 1.8¢

4 Interest expense and other income, net .9¢

5 Taxes 5.3¢

6 Reinvested earnings 1.9¢

7 Dividends 1.9¢



1975 Operations Compared with 1974 Operations

Sales in 1975 were $1,970.8 million, an increase of $177.7 million, or 10% over 1974. A major factor in the increase was higher prices.

Consolidated International sales amounted to $580.5 million, a 6% increase over the previous year. Canadian, Latin American and Australasian operations experienced strong performances. European results were behind 1974, as economic recovery in that area had been lagging.

Cost of sales increased $67.6 million to $1,345.7 million in 1975. The ratio to sales was 68.3% compared to 71.3% in 1974. Commodity costs in the U.S. food operations showed a downward trend during 1975 partially offset by increased costs for packaging supplies, energy and employee wages and benefits.

Selling, general and administrative expenses amounted to $456.8 million and $400.5 million in 1975 and 1974, respectively. The increase reflected higher distribution, marketing, and employee wage and benefit costs.

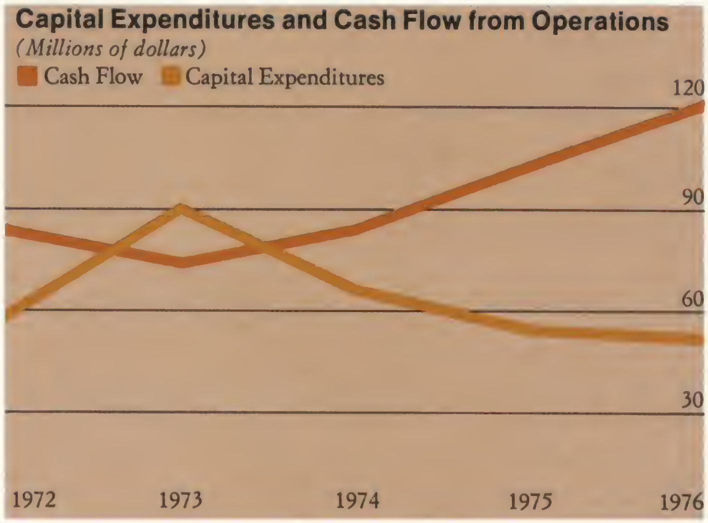
Income from operations was $168.3 million in 1975, a 47.1% increase over the previous year. The Company's U.S. food operations, with higher profit margins, were primarily responsible for the improved results. These results were achieved despite operating losses of $5.7 million reported by the Company's toys and games operation in 1975 compared to $3.3 million in 1974, as well as increased losses in the German food operations.

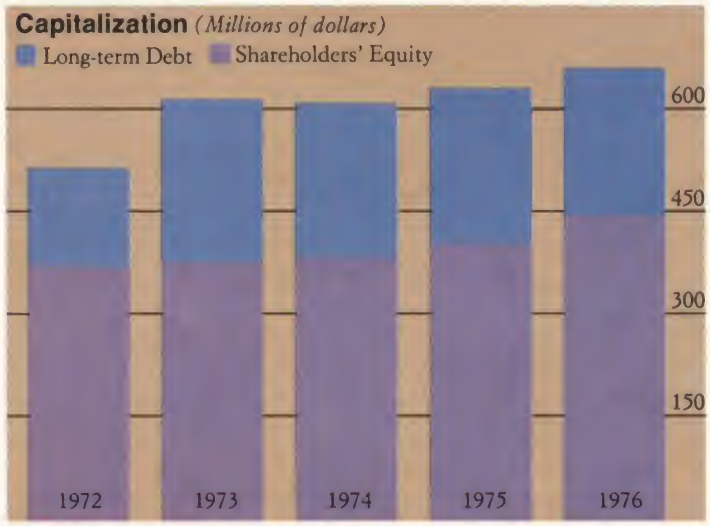
Miscellaneous (income) expense, net amounted to an expense of $5.0 million compared to income of $9.1 million in 1974. This change was due primarily to costs incurred in 1975 for the relocation of Nabisco's World Headquarters of $5.8 million and foreign exchange adjustments. Losses from foreign exchange adjustments amounted to $.6 million in 1975 compared to gains of $3.8 million in 1974.

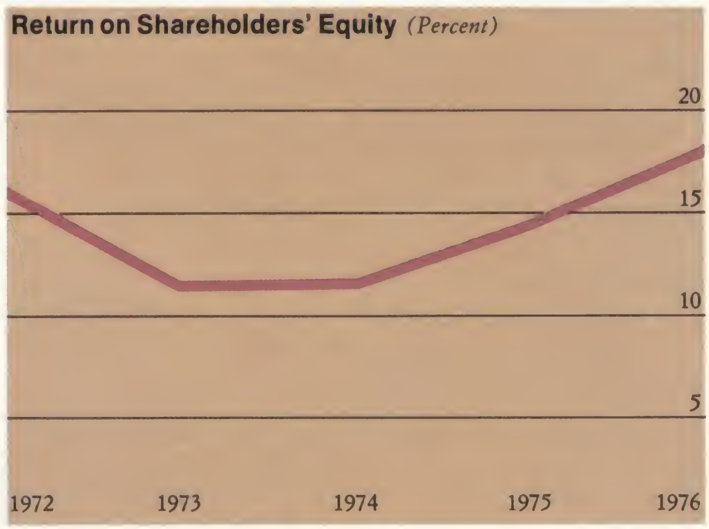
Interest expense decreased $2.3 million in 1975 to $28.6 million, principally in the short-term debt sector. The decrease was due to lower interest rates on a lower level of short-term borrowings brought about by improved operating results and effective management of inventories and receivables.

Income taxes of $75.7 million increased $28.5 million over 1974 due principally to higher pretax income. The increase in the effective rate of income taxes in 1975 to 56.2% from the 1974 rate of 51.0% was primarily due to the effect of losses from German operations for which tax benefits were not available.

Net income for 1975 increased 29.9% to $59.0 million. International operations contributed $3.3 million in 1975 and $7.3 million in 1974. The impact of foreign exchange adjustments was a significant factor in this decrease. Net income per share totaled $3.70 compared to $2.85 the previous year. As a percent of sales, net income equaled 3.0% and 2.5% in 1975 and 1974, respectively.







Financial Review (continued)

Other Financial Data
(Dollars in millions except per share data)

	1976	1975	1974	1973	1972*
Working capital	**$ 235.8**	$ 191.7	$ 178.3	$ 215.1	$ 173.3
Plant and equipment	**425.4**	413.5	391.9	356.3	296.3
Capital expenditures	**54.1**	56.0	67.6	92.1	60.2
Depreciation expense	**35.8**	33.7	31.6	26.3	25.7
Total assets	**1,058.5**	1,014.4	1,046.9	888.5	733.5
Short-term debt	**47.7**	62.9	171.3	45.7	31.6
Long-term debt	**218.3**	225.5	226.5	241.5	146.9
Shareholders' equity	**446.9**	407.1	384.8	376.3	369.7
Shareholders' equity per share	**27.96**	25.52	24.12	23.58	23.17
Return on shareholders' equity	**18.0%**	14.9%	11.9%	11.8%	16.4%

**Amounts reflect restatement for pooling of interests.*

Working capital amounted to $235.8 million at year-end 1976, compared to $191.7 million at year-end 1975. The current ratio improved to 1.82:1 at the end of 1976 from 1.65:1 at the end of 1975. Increased cash flow from operations, $122.0 million in 1976, 16.8% higher than the $104.4 million generated in 1975, was a major factor in the improvement.

Dividends—Nabisco has declared dividends each year since its inception in 1898. In January, 1977, the Board of Directors increased the quarterly dividend rate to $.63 per share, equal to an annualized rate of $2.52 per share. Quarterly dividends declared per share for 1976 and 1975 amounted to $.60 and $.575, respectively.

Capital expenditures for 1976 were $54.1 million, approximately the same level as last year. Major expenditures were related to new and existing facilities including the bakery in Richmond, Virginia, the knitting mill in Cape May, New Jersey, the boxboard mill and printing plant in Marseilles, Illinois and the flour mill in Toledo, Ohio. For 1977, capital expenditures are estimated to be $70 million with somewhat lower levels anticipated through 1980.

Return on shareholders' equity reached a 5-year high of 18.0% in 1976, continuing an upward trend begun in 1974. This important measurement shows the shareholders the productivity of their investment. Nabisco's return on shareholders' equity compares very favorably with the returns of many major food companies. Through careful planning, timely analysis of performance, and a profit-oriented management team, Nabisco expects to further improve the shareholders' return on their investment.

Stock market prices—The principal stock exchange on which Nabisco's common stock is traded is the New York Stock Exchange. The quarterly high and low prices for the past two years are as follows:

	Quarter			
1976	1st	2nd	3rd	4th
High	$41⅛	$42¾	$47⅞	$50⅞
Low	35½	36	40⅝	42⅜
1975				
High	35½	40	42½	41⅞
Low	22¼	30⅛	32	33⅜

Quarterly financial data
(In millions except per share data)

	Quarter			
1976	1st	2nd	3rd	4th
Net sales	$482.8	$478.0	$511.3	$555.2
Gross profit	168.8	161.5	175.6	183.8
Net income	16.6	17.9	20.3	22.2
Net income per share	1.04	1.12	1.27	1.39
Dividends paid per share	.575	.60	.60	.60
1975				
Net sales	452.6	481.3	497.8	539.1
Gross profit	137.3	148.5	168.1	171.2
Net income	11.5	13.1	14.3	20.1
Net income per share	.72	.82	.90	1.26
Dividends paid per share	.575	.575	.575	.575

Consolidated Statement of Income and Retained Earnings

NABISCO, INC.

	Year Ended December 31 1976	1975
Net sales	$2,027,286,000	$1,970,829,000
Cost of sales	1,337,599,000	1,345,725,000
Gross profit	689,687,000	625,104,000
Selling, general and administrative expenses	503,140,000	456,784,000
Income from operations	186,547,000	168,320,000
Miscellaneous (income) expense, net	(3,828,000)	4,987,000
Interest expense	23,033,000	28,577,000
Income before income taxes	167,342,000	134,756,000
Income taxes		
Current		
U.S. Federal	60,153,000	45,693,000
Foreign	10,480,000	10,777,000
State and local	10,461,000	7,572,000
Deferred, including investment tax credit	9,203,000	11,676,000
Total income taxes	90,297,000	75,718,000
Net income	77,045,000	59,038,000
Retained earnings, beginning of year	327,351,000	304,973,000
Common dividends declared, $2.40 per share in 1976 and $2.30 per share in 1975	(38,277,000)	(36,660,000)
Retained earnings, end of year	$ 366,119,000	$ 327,351,000
Net income per share	$4.82	$3.70

(Financial statements should be read in conjunction with the statement of accounting policies and notes to financial statements on pages 27 through 30.)

Consolidated Balance Sheet

ASSETS	December 31 1976	1975
Current assets		
Cash	$ 9,427,000	$ 10,159,000
Short-term investments, at cost which approximates market	13,907,000	10,881,000
Accounts receivable		
Trade	185,549,000	178,830,000
Other	11,966,000	12,220,000
Inventories		
Finished products	134,898,000	124,066,000
Raw materials and supplies	169,350,000	151,165,000
Total current assets	525,097,000	487,321,000
Property, plant and equipment		
Land	18,150,000	18,500,000
Buildings	205,941,000	205,726,000
Machinery and equipment	565,828,000	536,393,000
	789,919,000	760,619,000
Less accumulated depreciation	364,507,000	347,089,000
Total property, plant and equipment	425,412,000	413,530,000
Other assets	33,151,000	38,801,000
Excess of investments in consolidated subsidiaries over net assets	74,870,000	74,737,000
Total assets	$1,058,530,000	$1,014,389,000

(Financial statements should be read in conjunction with the statement of accounting policies and notes to financial statements on pages 27 through 30.)

LIABILITIES	December 31 1976	1975
Current liabilities		
Short-term debt		
Commercial paper	$ 36,717,000	$ 34,660,000
Bank loans and other	5,936,000	22,615,000
Current portion of long-term debt	5,076,000	5,580,000
Accounts payable		
Trade	73,964,000	77,638,000
Other	16,898,000	11,240,000
Accrued liabilities	113,327,000	106,590,000
Dividend payable	9,575,000	9,164,000
Income taxes	27,757,000	28,112,000
Total current liabilities	289,250,000	295,599,000
Long-term debt	218,340,000	225,467,000
Other liabilities	35,409,000	27,085,000
Deferred income taxes	49,730,000	42,511,000
Unamortized investment tax credit	11,644,000	9,660,000
Minority interests in consolidated subsidiaries	7,254,000	6,945,000
SHAREHOLDERS' EQUITY		
Capital stock, common—par value $5, shares authorized 24,000,000	80,173,000	80,030,000
Additional paid-in capital	3,180,000	2,276,000
Retained earnings	366,119,000	327,351,000
Treasury stock, at cost	(2,569,000)	(2,535,000)
Total shareholders' equity	446,903,000	407,122,000
Total liabilities and shareholders' equity	$1,058,530,000	$1,014,389,000

Consolidated Statement of Changes in Financial Position

	Year Ended December 31 1976	1975
Financial resources provided		
Net income	**$ 77,045,000**	$ 59,038,000
Charges to income not affecting working capital		
Depreciation	**35,757,000**	33,731,000
Deferred income taxes and investment tax credit	**9,203,000**	11,676,000
Working capital provided from operations	**122,005,000**	104,445,000
Decrease (increase) in "Other assets"	**5,650,000**	(1,267,000)
Increase in "Other liabilities"	**8,324,000**	3,348,000
Miscellaneous, net	**249,000**	(2,230,000)
Total financial resources provided	**136,228,000**	104,296,000
Financial resources applied		
Capital expenditures	**54,095,000**	56,014,000
Less disposals of property, plant and equipment	**7,396,000**	2,836,000
Additions to property, plant and equipment, net	**46,699,000**	53,178,000
Dividends declared	**38,277,000**	36,660,000
Current installment and repurchase of debentures	**2,085,000**	2,094,000
Decrease (increase) in other long-term debt	**5,042,000**	(1,100,000)
Total financial resources applied	**92,103,000**	90,832,000
Increase in working capital	**$ 44,125,000**	$ 13,464,000
Increase (decrease) in the components of working capital		
Cash and short-term investments	**$ 2,294,000**	($ 12,778,000)
Accounts receivable	**6,465,000**	418,000
Inventories	**29,017,000**	(42,006,000)
Short-term debt	**15,126,000**	108,407,000
Accounts payable and accrued liabilities	**(9,132,000)**	(26,941,000)
Income taxes	**355,000**	(13,636,000)
Increase in working capital	**$ 44,125,000**	$ 13,464,000

(Financial statements should be read in conjunction with the statement of accounting policies and notes to financial statements on pages 27 through 30.)

Consolidated Statement of Capital Stock and Additional Paid-in Capital

(Dollars in thousands)

	Common Stock				Additional Paid-in Capital
	Issued		Treasury Stock		
	Shares	Amount	Shares	Amount	
Balance, January 1, 1975	16,005,997	$80,030	(51,111)	($2,526)	$2,327
Issued in connection with incentive compensation plans	—	—	2,200	109	—
Treasury stock acquired	—	—	(3,109)	(118)	(51)
Balance, December 31, 1975	16,005,997	80,030	(52,020)	(2,535)	2,276
Issued in connection with:					
Exercise of stock options	28,483	143	—	—	914
Incentive compensation plans	—	—	1,319	64	—
Conversion of debentures	59	—	—	—	3
Treasury stock acquired	—	—	(2,054)	(98)	(13)
Balance, December 31, 1976	16,034,539	$80,173	(52,755)	($2,569)	$3,180

(Financial statements should be read in conjunction with the statement of accounting policies and notes to financial statements on pages 27 through 30.)

Statement of Accounting Policies

Consolidation—Nabisco consolidates its majority-owned subsidiaries. For companies in which it has a substantial interest, but owns less than a majority, Nabisco records its share of net results in "Miscellaneous (income) expense, net" in the Consolidated Statement of Income and Retained Earnings. The financial statements of most foreign subsidiaries are included on a fiscal-year basis ending on November 30 to facilitate prompt reporting of year-end consolidated results.

Inventories are stated principally at the lower of average cost or market.

Property, plant and equipment is recorded at cost. For financial reporting purposes, Nabisco generally provides depreciation on buildings, machinery and equipment on a straight-line basis, which provides that equal amounts of depreciation expense are charged to operations each year during the useful lives of the assets.

Depreciation is generally based on the following useful lives: buildings 20 to 40 years; machinery and equipment 3 to 20 years.

The cost and related accumulated depreciation of plant and equipment which is sold or otherwise disposed of are removed from the accounts and any resulting gain or loss is reflected in income.

Expenditures for maintenance and repairs are charged against income in the year in which they are incurred. Expenditures that result in the enhancement of the value of the facilities involved are treated as additions to plant and equipment.

Excess of investments in consolidated subsidiaries over net assets—For businesses acquired prior to 1971 and accounted for as purchases, the excess of the acquisition cost over the fair value of the net assets is not being amortized because, in the opinion of management, there has been no diminution of value. The excess relating to acquisitions made in 1971 and thereafter is being reduced by annual charges against income over a 40-year period.

Income taxes—Deferred income taxes, principally U.S. Federal taxes, result primarily from the use of accelerated depreciation methods for tax purposes which provide more depreciation expense in the early years than in the later years of the lives of the assets being depreciated.

Investment tax credit—Nabisco generally recognizes the U.S. investment tax credit earned on qualified capital additions by reducing income tax expense over the estimated useful lives of the related assets.

Net income per share is based on the weighted-average number of shares outstanding during the periods presented after giving effect to the potential dilutive effect of the exercise of stock options.

Notes to Financial Statements

Other assets consists of prepaid expenses, deferred charges, and investments/advances to unconsolidated affiliates and others.

Short-term debt includes U.S. commercial paper and foreign bank borrowings. In 1976, the Company terminated a $100 million revolving credit/term loan agreement with U.S. banks and $25 million of lines of credit with U.S. banks was established. These bank lines of credit and a Euro-currency credit agreement also serve to support sales of commercial paper.

Additional bank lines and credit agreements are maintained for foreign borrowing needs. At December 31, Nabisco's unused credit facilities amounted to $130,600,000 in 1976 and $194,200,000 in 1975.

The following summarizes information pertaining to short-term borrowings:

	1976	1975
Average amount of short-term borrowings during the year	**$62,000,000**	$121,000,000
Maximum amount of short-term borrowings at any month-end	**$78,000,000**	$157,000,000
Weighted-average interest rate during the year	**6.97%**	8.58%
Weighted-average interest rate at December 31	**6.56%**	8.44%

The average amount of short-term borrowings outstanding during the year is computed on a month-end basis. The weighted-average interest rate during the year is based on borrowings and the related interest rates at the end of each month.

Accrued liabilities consists of the following:

	December 31 1976	1975
Payrolls	**$ 41,924,000**	$ 41,396,000
Trade discounts	**16,475,000**	14,815,000
Taxes, other than income taxes	**11,309,000**	9,595,000
Interest	**4,571,000**	4,391,000
Other	**39,048,000**	36,393,000
	$113,327,000	$106,590,000

Long-term debt consists of the following:

	December 31 1976	1975
6½% Guaranteed Debentures due October 1, 1982	**$ 8,570,000**	$ 10,512,000
4¾% Subordinated Debentures due April 1, 1987	**29,135,000**	29,471,000
5¼% Guaranteed Convertible Debentures due March 1, 1988	**28,283,000**	28,286,000
7¾% Sinking Fund Debentures due May 1, 2001	**50,000,000**	50,000,000
7¾% Sinking Fund Debentures due November 1, 2003	**75,000,000**	75,000,000
Other long-term debt	**32,428,000**	37,778,000
	223,416,000	231,047,000
Less current portion	**(5,076,000)**	(5,580,000)
Total long-term debt	**$218,340,000**	$225,467,000

The 5¼% Guaranteed Convertible Debentures are convertible at $50.50 per share into approximately 560,000 shares of common stock.

At December 31, 1976, "Other long-term debt," maturing between 1977 and 2004, at a weighted-average interest rate of 7.19% (7.48% in 1975), consists principally of foreign borrowings.

The aggregate amount of debt maturities and sinking fund requirements for the four years following December 31, 1977 are: 1978, $6,134,000; 1979, $7,254,000; 1980, $7,225,000; 1981, $6,536,000.

Other liabilities consists primarily of pension accruals established to cover U.S. prior service liabilities and pension obligations of subsidiaries operating in countries where it is customary for companies to administer their own pension plans.

Retirement plans—The Company has a voluntary, non-contributory pension plan, which has been approved by the shareholders, for employees not covered by union pension plans. Certain subsidiaries have similar plans. In general, the plans provide for mandatory retirement at age 65 with benefits computed on the basis of length of service and employee earnings. The pension expense includes a provision for current service costs and, where applicable, amortization of unfunded prior service liabilities over primarily a 40-year period.

Annually, the Company pays to independent investment managers amounts computed on an actuarial basis to provide for the successful operation of its pension plan. In addition, union pension plans require contributions as defined

in the union agreements. Total pension expense amounted to $29,116,000 in 1976 and $23,910,000 in 1975. The amount necessary to fund all prior service liabilities under Nabisco plans is estimated to be $92 million at December 31, 1976. At the most recent actuarial valuation dates, estimated vested benefits exceeded the value of trust assets by approximately $52 million.

Income taxes—A reconciliation from the U.S. Federal statutory rate of 48% to the reported tax rate follows:

	1976 Amount	%	1975 Amount	%
Computed at 48% of pretax earnings	**$80,324,000**	**48.0**	$64,683,000	48.0
Increases (decreases)				
State and local income taxes, net of federal tax benefit	**5,440,000**	**3.3**	3,937,000	2.9
Effect of foreign losses not currently resulting in a tax benefit and foreign earnings taxed at other than the U.S. statutory rate	**3,490,000**	**2.1**	7,422,000	5.5
Other	**1,043,000**	**.6**	(324,000)	(.2)
As reported	**$90,297,000**	**54.0**	$75,718,000	56.2

The deferred income tax provision, principally U.S. Federal taxes, results from:

	1976	1975
Excess of tax over book depreciation	**$8,148,000**	$ 8,366,000
U.S. investment tax credit	**1,984,000**	1,694,000
Other, net	**(929,000)**	1,616,000
	$9,203,000	$11,676,000

U.S. income and foreign withholding taxes are being provided currently on foreign subsidiaries' net earnings that are expected to be distributed to the parent company.

Over the years, the Company has indefinitely reinvested approximately $52 million of foreign subsidiaries' retained earnings to meet their operating and long-term needs and, accordingly, no U.S. income taxes have been provided on these amounts. If such earnings were distributed, the amount of additional U.S. income taxes required would not be significant because of the availability of foreign tax credits.

Costs and expenses—Supplementary income statement information is set forth as follows:

	1976	1975
Maintenance and repairs	**$ 66,112,000**	$ 58,700,000
Depreciation	**35,757,000**	33,731,000
Taxes, other than income taxes		
Payroll	**38,187,000**	35,170,000
Other, principally property	**17,490,000**	15,428,000
Total	**55,677,000**	50,598,000
Research and development	**10,122,000**	9,307,000
Media advertising	**90,107,000**	83,668,000
Beginning inventory for cost of sales computation	**275,231,000**	317,237,000

Incentive compensation—In 1976 the shareholders approved the Nabisco Incentive Compensation Program (1976) which replaced the 1968 Management Incentive Plan and the Employee Stock Option Plan (1969). The new program provides for incentive awards to employees selected by the Compensation Committee of the Board of Directors, whose members are not eligible for awards. Employees selected are those having the greatest opportunities to contribute to current earnings and the future success of Nabisco. The amounts to be awarded are generally determined by the relationship of profit performance to predetermined short- and long-term goals. Awards are determined by the Compensation Committee. Under the new program, the provision was $3,381,000 in 1976 compared with $4,200,000 under the previous plan in 1975.

With the termination of the Employee Stock Option Plan (1969) the granting of stock options was discontinued and essentially replaced by the long-term portion of the new program. Transactions with respect to options granted in 1975 and prior years are summarized below:

	1976 Shares	1976 Option Price*	1975 Shares	1975 Option Price*
Granted	**—**	**—**	74,680	$39.75
Exercised	**28,483**	**$37.18**	—	—
Expired or cancelled	**13,541**	**48.81**	40,705	45.74
Outstanding, end of year	**277,265**	**42.86**	319,289	42.60
Exercisable, end of year	**271,158**	**42.80**	234,179	43.78

**Represents the weighted-average price per share at the dates options were granted.*

Notes to Financial Statements (continued)

International operations are included in the financial statements at the following U.S. dollar amounts:

	1976	1975
Working capital at December 31	**$ 86,332,000**	$ 66,795,000
Net plant assets at December 31	**156,020,000**	157,517,000
Net sales	**586,935,000**	580,523,000
Income before foreign exchange adjustments	**9,533,000**	4,727,000
Foreign exchange adjustments, net of income taxes	**(1,083,000)**	(1,432,000)
Net income	**8,450,000**	3,295,000

Foreign exchange adjustments are included in "Miscellaneous (income) expense, net" in the Consolidated Statement of Income and Retained Earnings and reflect gains and losses resulting from the translation of foreign financial statements, forward foreign exchange contracts and foreign currency transactions as defined in Statement of Financial Accounting Standards No. 8.

Commitments, principally for plant and equipment, approximated $20 million at December 31, 1976.

Nabisco has numerous lease commitments that expire on various dates with no significant leases expiring later than 2005. The approximate present value of net noncapitalized financing lease commitments at December 31, 1976, discounted at interest rates ranging from 4.0% to 14.0% (a weighted-average interest rate of 8.6%), amounted to $77,051,000 ($71,300,000 in 1975). If such leases had been capitalized, and the related assets amortized on a straight-line basis with interest costs accrued on the outstanding lease liability, net income for the years 1976 and 1975 would not have been materially affected.

Rental expense charged to income amounted to $19,329,000 and $15,663,000 (including $10,403,000 and $6,122,000 of net noncapitalized financing lease rentals) in 1976 and 1975, respectively.

Litigation—Various legal proceedings and claims are pending against the Company and certain of its subsidiaries. Although Nabisco's liability with respect to such matters cannot be ascertained at December 31, 1976, in the opinion of management and counsel of Nabisco, the ultimate liability, if any, from all pending legal proceedings and claims will not materially affect Nabisco's financial position or the results of its operations.

Quarterly financial data (unaudited)—The unaudited summarized financial data for 1976 appears on page 22.

Current replacement cost information (unaudited)—Under new rules of the Securities and Exchange Commission current replacement cost information for certain assets and expenses is disclosed in Nabisco's Annual Report Form 10-K which is filed with the Commission.

This information shows that the current replacement costs of Nabisco's inventories, plant and equipment are higher than the comparable historical amounts shown in the Consolidated Balance Sheet. Additionally, cost of sales and depreciation expense calculated using replacement costs are also higher than the comparable historical amounts. The higher replacement cost depreciation expense would be partially offset by cost savings which would result from the replacement of existing assets with assets of improved technology.

Report of Auditors

To the Shareholders of Nabisco, Inc.:

We have examined the consolidated balance sheets of Nabisco, Inc. and its subsidiaries as of December 31, 1976 and 1975, and the related consolidated statements of income and retained earnings, capital stock and additional paid-in capital and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Nabisco, Inc. and its subsidiaries at December 31, 1976 and 1975, and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

1251 Avenue of the Americas
New York, N.Y. 10020
January 31, 1977

Directors and Officers

Board of Directors

Lee S. Bickmore*
Chairman of the Executive Committee

Berford Brittain, Jr.*
Former Senior Vice President, Continental Illinois National Bank & Trust Company of Chicago

Val B. Diehl*
President and Chief Operating Officer

Kenneth C. Foster**
Former President, The Prudential Insurance Company of America

Dr. Helen A. Guthrie
Professor of Nutrition Pennsylvania State University and Member of the Food and Nutrition Board of the National Research Council

Robert W. Haack‡
Chairman of the Board pro tem, Lockheed Aircraft Corporation

James L. Hayes‡
President and Chief Executive Officer, American Management Associations, Inc.

Morris L. Levinson
President, Associated Products, Inc., a Nabisco subsidiary

Don G. Mitchell*‡
Director of various corporations

William H. Moore*
Director and former Chairman of the Board, Bankers Trust New York Corporation and Bankers Trust Company

Dr. Albert E. Rees
Provost and Professor of Political Economy, Princeton University

Matthew B. Rosenhaus*
Vice Chairman of the Board

Robert M. Schaeberle*
Chairman of the Board and Chief Executive Officer

Perry M. Shoemaker**
Transportation consultant

James O. Welch**
Trustee and corporate director

** Member of the Executive Committee*
*** Member of the Audit Committee*
‡ Member of the Compensation Committee

Office of the Chairman

Robert M. Schaeberle
Chairman of the Board and Chief Executive Officer

Matthew B. Rosenhaus
Vice Chairman of the Board

Val B. Diehl
President and Chief Operating Officer

Group and Senior Vice Presidents

David F. Bull
Group Vice President

Richard S. Creedon
Group Vice President

Robert J. Jones
Group Vice President

Edward P. Redding
Group Vice President

Theodore G. Richter
Group Vice President

Warren J. Robertson
Senior Vice President

Robert L. Sanford
Senior Vice President

Corporate Vice Presidents

J. Stewart English
Corporate Development

Walter S. Halliday, Jr.
General Counsel

Henry L. Henderson
Technology

John B. McGovern
Personnel Relations Consumer and Community Affairs

Edwin F. Mundy
Traffic and Headquarters Facilities

C. Richard Owens
Finance

Carl R. Pilz
Purchasing

Robert J. Powelson
President, Biscuit Division

Dwight H. Scott
Government Relations

Paul L. Snyder
President, Freezer Queen Foods, Inc.

James O. Welch, Jr.
President, Special Products Division

Richard H. Gavoor
Controller

Kenneth M. Hatcher
Secretary

Edward J. Matthews, Jr.
Treasurer

Principal U.S. and International Operations

Principal United States Operations

Biscuit Division
Atlanta, Georgia (Cookies, crackers)
Buena Park, California (Cookies, crackers, snack foods)
Chicago, Illinois (Cookies, crackers, pretzels, toaster pastries)
Dayton, Ohio (Ice cream cones)
Fair Lawn, New Jersey (Cookies, crackers)
Houston, Texas (Cookies, crackers)
Philadelphia, Pennsylvania (Cookies, crackers)
Pittsburgh, Pennsylvania (Cookies, crackers, snack foods)
Portland, Oregon (Cookies, crackers, ice cream cones)
Richmond, Virginia (Cookies, crackers, pretzels)
St. Louis, Missouri (Crackers)
Wrightstown, Wisconsin (Cheese spreads)

Special Products Division
Bridgeview, Illinois (Pet foods)
Buffalo, New York (Pet foods)
Denver, Colorado (Pet foods)
Minneapolis, Minnesota (Cereals)
Morristown, Indiana (Textured vegetable protein)
Naperville, Illinois (Cereals, cake mixes)
Niagara Falls, New York (Cereals)
Oakland, California (Cereals)
Woodbury, Georgia (Pimientos, dates, steamed breads, peanuts)

Confectionery Division
Fred W. Amend Co.
Danville, Illinois (Candy)
Nabisco Confections, Inc.
Cambridge, Massachusetts (Candy)
Los Angeles, California (Candy)
Mansfield, Massachusetts (Chocolate, candy)

The J. B. Williams Company, Inc.
Booneville, Arkansas (Combs)
Cranford, New Jersey (Pharmaceuticals, toiletries)
Venice, California (Toiletries)

Aurora Products Corp.
Downey, California (Hobby motors)
Secaucus, New Jersey (Toys and games)
West Hempstead, New York (Model Motoring, toys and games)

Freezer Queen Foods, Inc.
Buffalo, New York (Frozen foods)

Associated Products, Inc.
Brooklyn, New York (Home furnishings)
Cape May, New Jersey (Fabrics)
Closter, New Jersey (Fabrics)
Gardena, California (Home furnishings)
Tualatin, Oregon (Pet foods)

Other Facilities
Beacon, New York (Printing plant)
Carthage, Missouri (Flour mill)
Cheney, Washington (Flour mill)
Evanston, Illinois (Machine shop)
Fair Lawn, New Jersey (Research and development)
Marseilles, Illinois (Boxboard mill and printing plant)
Toledo, Ohio (Flour mill)

Principal International Operations

Australia
Nabisco Products Pty., Limited
Nabisco Pty., Limited

Canada
Aurora Plastics of Canada, Ltd.
Christie, Brown & Company, Limited:
Biscuit Division
Christie's Bread Division
Nabisco Foods Division
Reid Milling Division
The J. B. Williams (Canada) Co.

Colombia
Landers & Cia. S.A.

Denmark
Lamco A/S
Oxford Biscuit Factory Limited

Dominican Republic
Tamara, C. por A.

England
Nabisco Limited:
Nabisco Foods Division
Nabisco-Frears Biscuits Division

France
Biscuits Belin, S.A.
International Training and Research Center
The J. B. Williams Co. (France) S.A.

Germany
B. Sprengel & Co.
XOX-Nabisco GmbH

Italy
Saiwa, S.p.A.

Japan
Yamazaki-Nabisco Co., Limited

Mexico
Aurora-Mex. S.A. de C.V.
Nabisco-Famosa, S.A.
Rowe-Mex. S.A. de C.V.

New Zealand
Griffin & Sons Limited

Nicaragua
Industrias Nabisco Cristal, S.A.

Puerto Rico
Arbona Hermanos Division, Nabisco International, S.A.

Republic of South Africa
Pyott, Limited

Singapore
Aurora Products Corp.-Asia Pte. Ltd.

Spain
Galletas Artiach, S.A.

Venezuela
Nabisco-LaFavorita C.A.

Corporate Data

Principal Exchanges
New York
Midwest
Pacific
Amsterdam
Paris

Ticker symbol: NAB

Transfer Agents
Morgan Guaranty
Trust Company
of New York,
30 West Broadway,
New York, N.Y. 10015

The First National
Bank of Chicago,
One First National
Plaza, Chicago, IL 60670

Crocker National Bank,
Corporate Division
P.O. Box 38005
San Francisco, CA 94138

Registrars
Morgan Guaranty
Trust Company
of New York,
30 West Broadway,
New York, N.Y. 10015

The First National
Bank of Chicago,
One First National
Plaza, Chicago, IL 60670

Bank of America,
Corporate Agency Division
Box 37002
San Francisco, CA 94137

Debentures Trustees
Bankers Trust Company,
16 Wall Street,
New York, N.Y. 10015

Morgan Guaranty
Trust Company
of New York,
23 Wall Street,
New York, N.Y. 10015

Auditors
Coopers & Lybrand
1251 Avenue of the Americas
New York, N.Y. 10020

Shareholder Information
Current shareholders are requested to address all questions concerning their securities or dividends, as well as requests for proxy materials, address changes, or other shareholder information, to the Corporate Secretary, Nabisco, Inc., East Hanover, N.J. 07936, or by telephone, (201) 884-0500.

Availability of Form 10-K
In the opinion of management, the Financial Statements in this Annual Report to Shareholders include substantially all financial data in the Annual Report Form 10-K, filed with the Securities and Exchange Commission.

However, the Company's Annual Report Form 10-K is available on request without charge from the Director, Investor Relations, Nabisco, Inc., East Hanover, N.J. 07936, or by telephone, (201) 884-0500.

Nabisco, Inc., East Hanover, N.J. 07936 (201)884-0500